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SUBJECT: A "FIVE-YEAR PLAN" FOR VIETNAM'S TELECOM AND INTERNET SECTORS

SENSITIVE BUT UNCLASSIFIED PROTECT ACCORDINGLY

¶1. (SBU) Summary: The GVN approved what amounts to a "five-year plan" for the ambitious development of its telecommunications and Internet sectors between now and 2010, with an estimated investment of USD 631 million to be financed by foreign and domestic private sources and overseas development assistance (ODA). While the plan calls for increased competition, it only mentions equitization briefly (and does not mention privatization). Although the GVN would like to attract foreign capital, it intends to retain control of the telecom and Internet sectors for both economic and political reasons. On a positive note, and in keeping with the WTO Reference Paper on telecom services, the plan calls for "moving towards the abolishing cross-subsidization between telecommunications and Internet services," as well as for allowing telecom and Internet fees to be determined by the market. Foreign businesses are waiting for implementation details to identify new opportunities. End Summary.

A "Five-Year Plan"

¶2. (SBU) On February 7, Prime Minister Phan Van Khai signed the "Master Plan on Telecommunications and Internet Development in Vietnam Until 2010," which lays out an ambitious development schedule for Vietnam's telecom and Internet sectors. According to the plan, the GVN hopes to develop Vietnam's telecommunications infrastructure to the level of other countries in the region, to generate economic growth in these sectors at 1.5-2 times that in the rest of the economy, and to produce USD 3.5 billion in revenues. Details and concrete strategies for implementing and securing funding are lacking, but foreign and domestic portfolio and capital investment, and ODA are all mentioned as possibilities. While the plan calls for the creation of an "environment friendly to new enterprises", it also appears that the GVN intends to maintain economic and political control over the telecom and Internet sectors. It is thus unlikely that the plan in itself will lead to the kinds of sector reforms that would make it attractive to significant foreign direct investment, especially for telecom service providers.

¶3. (SBU) Although the plan calls for the creation of a "fair and competitive market", and sets a goal of 40-50% new entrant market share by 2010, this will not necessarily translate into significant government divestiture. Currently, Vietnam Posts and Telecommunications (VNPT), the largest state-owned enterprise (SOE) operator controls 95%

of the telecom and Internet markets, and all other ventures in these fields are at least partly state-owned. The GVN has focused on developing competition between SOEs controlled by different ministries rather than on encouraging the development of strong private telecommunications and Internet sectors.

¶4. (U) On a positive note, and in keeping with the WTO Reference Paper on telecom services, the plan calls for "moving towards abolishing cross-subsidization between telecommunications and Internet services." Additionally, the plan states that charges and fees should be based on production costs and market demand, and that service charges that have been set below production costs should be adjusted. The State should intervene only by setting charges applicable to "public welfare services" and in cases where monopoly pricing prevents new entrants into the sectors. (Note: A list of "public welfare services" has been submitted for GVN approval. These include fixed telephone and Internet access services. Endnote).

¶5. (SBU) The plan calls for developing the legal and administrative system, including a telecommunications law and implementing regulations to create a regulatory and market environment favorable to growth and to address, among other things, information security and safety. The Ministry of Posts and Telematics (MPT), in coordination with other ministries, is in charge of implementing the plan. Some foreign business sources believe that MPT Vice Minister Vu Vuc Dam may be one of the government officials responsible for the implementation of the GVN's plans. They consider him a reliable and progressive thinker with a good track record for getting things done.

¶6. (U) Stated development goals are to attain a teledensity of between 32-42 phones per 100 inhabitants from the current 6.86 (the ASEAN average is 21.40); an Internet subscription

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density of 8-12; Internet access for 25-35 percent of the population; public telephone service points in all villages; public Internet access points in 70 percent of all villages; broadband Internet in all districts and almost all villages in key economic zones; and broadband Internet connections and connections to the GVN broadband network in all ministries, state administrative organizations and local governments.

Business Offers the Market-Economy Perspective

¶7. (SBU) Intel reported to ECON HCMC that it met with MPT officials in Hanoi along with other companies including Microsoft, Motorola and Cisco, in order to provide input to the GVN's master plan. According to Intel, the principles and goals of the plan are laudable and in line with the needs and goals of the technology sector; however, as is frequently the case in Vietnam, it will be the execution of policy that will determine this plan's worth. Foreign firms have made some suggestions as to what the GVN could do to achieve its technology goals, such as clearly defining deliverables in each category of the master plan and continuing to search out more opportunities for public/private partnerships. In order to execute successfully the master plan, the GVN needs to provide the private sector with concrete incentives to promote the use of technology. For example, it should make mandatory the online registration of all new businesses, continue with the computerization of customs, and provide tax breaks for companies that invest in and use information technology.

¶8. (SBU) According to one leading Vietnamese IT businessman, the plan is an academic exercise. He is skeptical that it will be executed. He confirmed, however, that Viettel subsidizes its Internet business, while VNPT, the dominant Internet service provider, does not.
A Nuanced Understanding of "Competition"

¶9. (SBU) Comment: While western economists and policy

makers equate a competitive market with a strong private sector and the absence of a monopoly, Vietnamese officials have chosen to interpret competition in the telecom sector to mean the presence of several service providers regardless of their ownership. As a response to the need for increased competition, the GVN has thus encouraged the entry of enterprises new to this sector that are wholly or partially state-owned. The ministries that control them may vary, but the enterprises are still SOEs. A particularly salient example of the GVN's limited definition of competition is that the two largest mobile phone companies are owned by VNPT, the state-owned monopoly telecommunications provider.

¶10. (SBU) Comment continued: The GVN has identified the telecom and Internet sectors as promising growth areas that will generate jobs, revenue, and economic growth, and intends to retain control of them for economic reasons, as well as the often cited security concerns. Although the GVN recognizes the need to attract foreign capital to attain these development goals, it is apparently not yet prepared to allow the changes in ownership control that would make the Vietnamese market attractive to significant foreign direct investment. This underscores the importance of improving telecom market access for new entrants in Vietnam's WTO accession agreement. End comment.

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